
Session 1 (Day 1 Morning)

The Principles and Practice of Economic Development

Session Overview

Creating a physical and administrative environment that is attractive to business is one of the most important responsibilities of local government. Both the regulatory process and the delivery of public services contribute to this objective, and each is a cost to business. In a decentralized governing system, local governments have more rights and responsibilities in establishing policy on such concerns as protection of the environment, building codes, physical appearance, use of land, and so forth. There are many points of view one can use to assess the economic conditions of a country. Likewise, there is more than one governing approach that can be used to determine how conditions can be changed.

This session kicks off the economic development course by providing a review of the course goals and objectives, and introducing participants to the trainers, to one another, and to course materials. The welcome activities also introduce participants to economic development terminology, as it will be used in the course. A presentation then discusses the regulatory environment and other aspects of a local government's responsibilities that have an impact on a business's location decisions, looking at the regulatory environment from the perspectives of the private investor and the public sector. Finally, the session observes the intersection between the development of small and medium-sized enterprises (SMEs) and local economic development programs and considers the impact of national legislation, macroeconomic policy, and other external factors.

Session Objectives

- < To present the goals and objectives of the course.
- < To provide a brief overview of the five principles of local economic development and the role of local government.
- < To examine the conditions that affect local economic development.
- < To identify critical stages of development necessary to stimulate the investment environment for SMEs and explore how local governments contribute to development of SMEs vis-à-vis the overall governing structure of a country.
- < To identify factors that affect business start-ups, expansion, and the long-term profitability of a firm and to consider which factors local governments can change, as well as those they cannot.

- < To explore the impact of community-level legislative and administrative problems on general development issues and review how local governments can overcome obstacles to private investment, either directly or indirectly.
- < To consider what additional resources would be needed to address obstacles to local economic development.



Trainer's Notes

1½ hours Welcome and Introductions

This part of the session consists of basic welcome and icebreaker activities and introduces the topic by defining economic development terminology. As an alternative, the terminology segment of the session can be an optional pre-course activity. Trainers may also choose to develop a list of terms with definitions and hand it out to the participants.

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|---------------|---|
| <i>10 min</i> | 1. Begin by welcoming the group. Introduce yourself and all other trainers who are present. Review the course agenda, course materials, and procedures. Discuss also any issues related to accommodations, meals, and breaks. Then, review goals and objectives. Explain what you expect participants to learn, using the course goals and objectives above. (You should revise these to accommodate your group.) |
| <i>20 min</i> | 2. Give participants an opportunity to introduce themselves, stating their name, organization, and community (if applicable). If the group is small, an icebreaker may be used for introductions. You may also consider having participants talk briefly about what they expect from the course at this time. |
| <i>10 min</i> | 3. Turn your attention to the topic—economic development. Begin to focus by asking participants to write down a definition of economic development. Then, ask for volunteers to share their definition of economic development and use responses to generate a discussion of the issue, posing such questions as: “What does economic development mean to your community?” |
| <i>50 min</i> | 4. Explain that discussions of economic development are often made more difficult by a difference in the ways that various terms are used. Distribute the handout, “Local Economic Development Terms and Definitions.” Review each term on the handout, revising the definition where needed to accommodate the meaning within the country in which the training is held.

5. Conclude by reminding participants that they should ask questions whenever a term or concept is unfamiliar. Far more learning will occur if participants raise questions as they occur and clarify concepts as they go along. |

45 min Presentation: Local Economic Development Strategies

This presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.

- 5 min* 1. Begin this presentation by asking participants to think about the foremost purpose of economic development. Lead a discussion until the group touches on the answer “to generate wealth.” Make the linkage between generating wealth and community quality of life, using the first overhead for this presentation.
- 10 min* 2. Continue with the presentation, focusing on the basic principles of local economic development. Use the “Cities Matter” talking points and the overheads to discuss the basic principles of local economic development.
- 25 min* 3. Next, turn attention to the SME strategies, again using the talking points and overheads to discuss the lessons that have been learned and their impact on future strategies. Following the overheads, discuss the stages of enterprise development and the steps that can be taken to build a strategy that will create an enabling environment for economic development. Distribute the handout, “Adapting Program Strategies.”
- 5 min* 4. Conclude with a summary of the discussion, asking questions of participants to elicit key concepts and help relate them to the participants’ own situations. Main points to be reiterated include the following:
- < There is a correlation between economic output and the efficiency with which local services are provided.
 - < While governments in post-Soviet countries no longer control economic output, local governments (like national governments) have an important role to play in establishing a profitable investment environment.
 - < Cities are markets in their own rights; as such, economic development strategies should include assisting businesses within a community to capture each other’s consumption demands. This is particularly important for the development of SMEs.

1½ hours Group Assignment: Developing the Framework for Local Economic Development

In this activity, participants develop an assessment tool they can use throughout the course.

1. Break into small groups of five or six participants each. If there are various communities represented, break so that the participants from each community are working together.
- 10 min 2. Explain that the groups are to work together to create an assessment tool and a framework that will enable them to assess the conditions in the country or in their respective communities as they relate to economic development. Small groups are asked to consider how the critical issues that have been presented compare to conditions in their own country and/or local government. Consideration should be given to legislative, regulatory, economic, and labor conditions. Distribute the handout, “Overcoming Constraints,” and allow participants a few minutes to review the instructions. Ask if there are any questions before beginning. Tell groups that they will have 30 minutes to list constraints to economic development and to identify the four that they believe to be most critical.
- 30 min 3. Allow groups 30 minutes to complete their work. Remind them when there are five minutes left.
- 30 min 4. Reconvene the group and ask a spokesperson from each small group to *briefly* report on its discussion. After each report, point to similarities and differences in the issues that have been raised.
- 20 min 5. When all groups have made their presentations, distribute the handout, “Economic Development Framework,” and the “Application Worksheet.” Explain the purpose of the worksheet and how it can be used to address the constraints on and obstacles to economic development. Tell participants that the training course will close with a session that gives participants time to begin developing their economic development strategies and that this worksheet will assist them to complete the task. Participants should be encouraged to take time during Reflections to make notes on the worksheet.



Talking Points: Cities Matter

While the purpose of pursuing economic development programs is to generate wealth, the local government should not be the primary investor. According to Michael Porter, author of *The Competitive Advantage of Nations*, the role of government is to enhance what exists, not create something that does not exist.¹ Thus, government plays a critical role in establishing an investment-friendly environment—one in which private investors can expect a reasonable return on their investment and citizens can garner a better quality of life through improved employment opportunities. To create this environment, local government officials focus on physical resources, labor, and financial resources. Their goal is to improve the productive use of space, the productivity of labor, and effective use of financial resources, ultimately creating a more inviting investment climate. In many ways, local economic development is a hybrid field that relies on the principles of economics, finance, planning, public administration, local government management, and spatial geography to achieve the ultimate goal of increased wealth for the community.

Cities matter in very real ways. Cities, not nations, are the engines of economic growth. Cities are the concrete representation of people's values and lives. They house the physical evidence of outcomes of international, national, regional, and local government policies. They are "centers of investment."

Principles of Economic Development

This course explores actions that government, business, and community groups can take to ensure that investment flourishes. The course contents are derived from the following five principles of local economic development:

1. Firms, not local or national governments, create wealth.
2. Local economic development programs should be executed in partnership with national and regional policies and programs.
3. Efficient and effective public institutions reduce the cost of production for the private sector.
4. The physical environment (infrastructure) contributes to a community's competitive advantage.
5. Access to employment opportunities improves the overall wealth of a community.

¹ Porter, Michael (1990). *The Competitive Advantage of Nations*, Free Press: New York.

Economic development is dependent on what a community does. Components that can help enhance economic development opportunities include establishing effective national and local institutional relations, creating an attractive (profitable) investment environment, and capitalizing on community resources.

Lessons Learned

The following lessons learned (as reported in “Partnerships for Sustainable Enterprise Growth: 21st Century Vision for USAID and Its Partners in Eastern Europe and the New Independent States,” a paper prepared for USAID, July 1999) can provide insight into the factors that contribute to successful economic development programs and strategies:

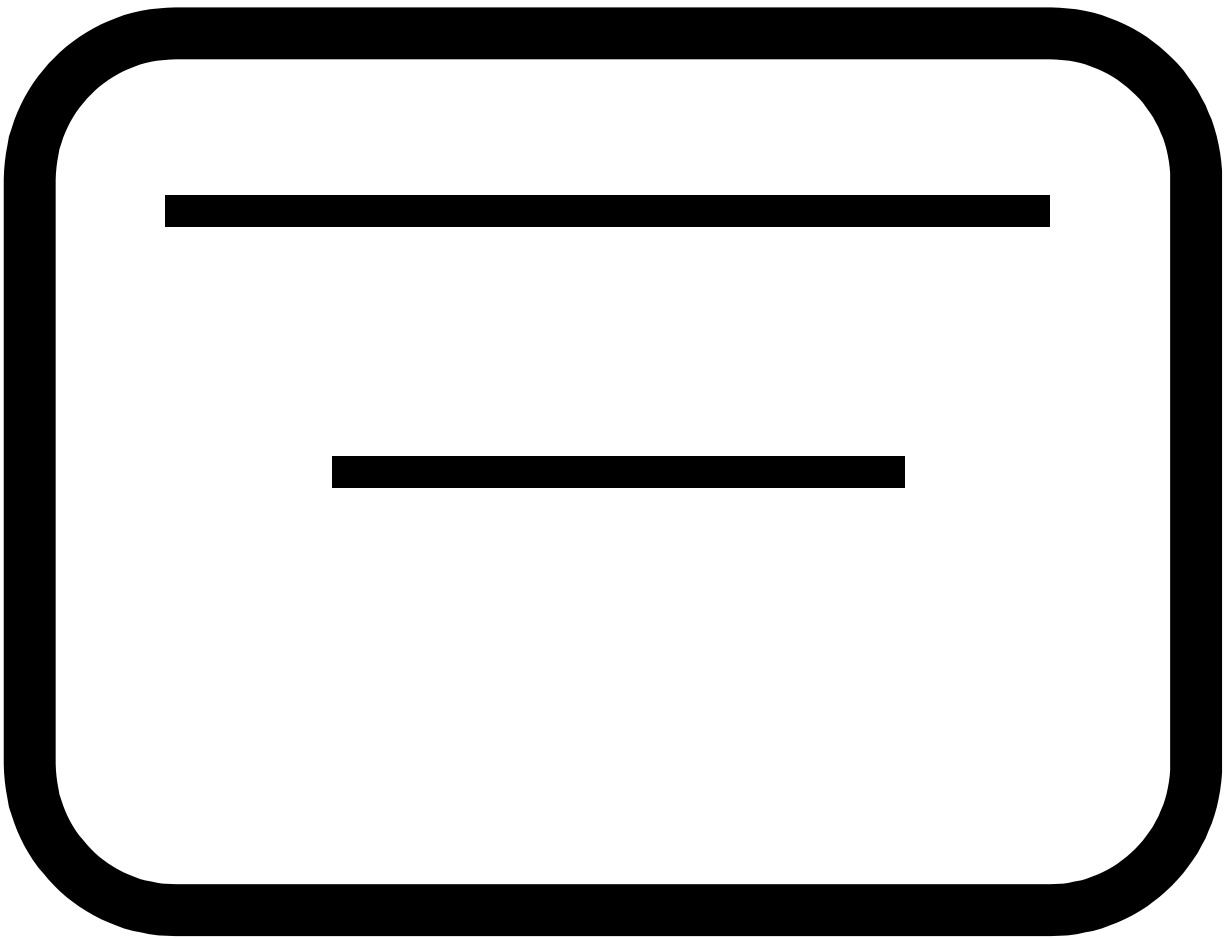
- < The single biggest impediment to sustainable growth is the lack of progress in economic and commercial reforms that create a competitive marketplace for enterprises of all sizes. Many governments have stalled in passing new legislation, and when legislation is passed, they often have limited capacity to implement and enforce a regulatory regime that allows markets to operate properly.
- < Enterprises need a stronger collective voice to promote legal and regulatory changes that help create a market economy. Local trade and professional associations, other local nonprofit organizations that seek to promote good governance and a civil society, policy analysts, and researchers are all viable partners in this regard.
- < Enterprises need continued opportunities to learn and strengthen modern management techniques.
- < The main impediment to enterprises having access to capital they need to grow their business is the lack of an investor-friendly climate that could be gained by implementing economic reforms.
- < In most E&E countries, people are still unclear about what is a market economy, what is the role of private enterprises, and why economic reform is important.
- < Privatization has yielded positive results, but its full success depends on (1) sufficient political will to complete privatization, (2) a higher level of managerial accountability and better corporate governance, and (3) the presence of a fair and competitive business environment.

USAID has determined that its enterprise development activities should be designed along six strategic program areas:

1. Legal and regulatory reform
2. Association development

3. Technical assistance and training for enterprises
4. Financial services development
5. Educating the next generation of entrepreneurs and managers
6. Promoting the political will to complete privatization.

Overheads



Principles of Local Economic Development

Business, not government, creates wealth.

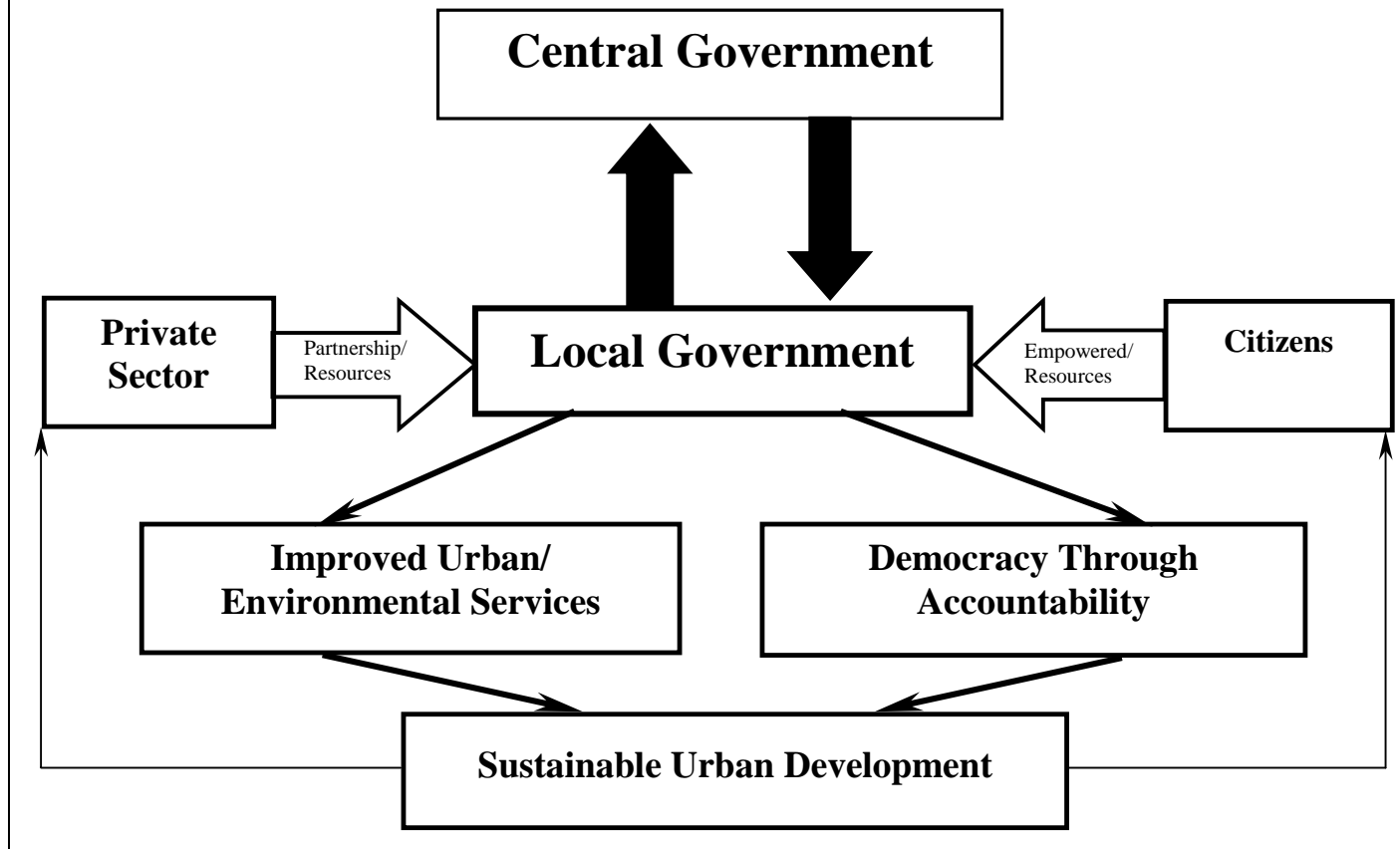
Firms Create Wealth

- < Revenues for public expenditures
- < Income for citizens
- < Capital for investments

Supporting Principles

- < Efficiently run public institutions reduce the cost of production.
- < The physical environment contributes to the competitive advantage of a city.
- < Access to employment opportunities improves the overall wealth of a community.
- < Local economic development programs should be executed in partnership with national government

The Empowered Local Government



Course Topics

- < Enabling environment
- < Enhancing the investment environment
- < Maximizing the value of community resources
- < Sustainability

Lessons Learned

- < The local government's actions need to reduce transaction costs for business.
- < The biggest impediment to economic development is lack of progress in economic and commercial reforms.
- < The collective voice of businesses is key to achieving reforms and encouraging an enabling environment.
- < Building local capacity to provide services to enterprises should be a top priority in the design of economic development programs.

Lessons Learned, Continued

- < The main impediment to financing is a poor investment climate; capital follows return.
- < Citizens, businesses, and others still lack a good understanding of a market economy and the role of private business; more dialogue and public-private partnerships are needed.
- < Privatization is important; it depends on the political will of government.

Transition Indicators

- < Governance and restructuring
- < Price liberalization
- < Trade and foreign exchange system
- < Competition policy
- < Banking reform and interest rate liberalization
- < Securities markets and financial institutions
- < Large-scale privatization
- < Small-scale privatization

Three Stages of Enterprise Development

At the beginning of these three stages, businesses operate in a largely chaotic environment. As they move through each stage, they progress toward a better-regulated, more open, and more competitive marketplace.

Formation of Functional Markets



Market Development



Enterprise Formation

Strategic Program Areas

- < Legal and regulatory reform
- < Association development
- < Training and technical assistance for enterprises
- < Financial services
- < Education of a new generation of entrepreneurs and managers
- < Privatization

Legal and Regulatory Reform

Enterprise Formation:

- < Educate public officials about how an open market economy works and the legislative changes needed to achieve it.
- < Inventory regulatory impediments to the development of private enterprise.
- < Survey firms.

Market Development:

- < Provide training and technical assistance for public officials regarding their roles and responsibilities.
- < Provide training in policy analysis and strategic management to associations and think tanks.
- < Facilitate stakeholder dialogue.

Formation of Functional Markets:

- < Promote public-private partnerships for enterprise development.
- < Hold public forums for debating issues.
- < Foster regional networks to carry forward momentum for reform.

Association Development

Enterprise Formation:

- < Encourage collective action among entrepreneurs and others to improve business opportunities.

Market Development:

- < Provide support for trade and professional association activities.
- < Offer training in association management, advocacy, and coalition building.

Formation of Functional Markets:

- < Support regional networks of associations and business coalitions.
- < Look for opportunities to link efforts with U.S. counterpart associations.

Training and Technical Assistance for Enterprises

Enterprise Formation:

- < Use foreign experts to provide technical assistance to private businesses.
- < Identify and train local professionals in consulting techniques.

Market Development:

- < Reduce subsidies.
- < Encourage greater use of local experts.
- < Focus on local skill building.

Formation of Functional Markets:

- < Target funding to promote best practices (through associations, information networks, etc.).
- < Increase regional trade.

Financial Services

Enterprise Formation:

- < Deal directly with businesses to demonstrate viable financing (credit for micro- and small-scale enterprises) to both borrowers and future lenders and investors.

Market Development:

- < Work with progressive banks with means to finance.
- < Introduce alternative approaches (equity financing, leasing, credit unions, etc.).
- < Continue with viable financing schemes (micro and other).

Formation of Functional Markets:

- < Provide training in best practices.
- < Refine non-bank financing schemes.
- < Develop secondary capital markets.

Education of the New Generation

Enterprise Formation:

- < Train educators in market economics.
- < Provide educational programs for youth.

Market Development:

- < Provide programs that give youth and pre-entrepreneurs hands-on opportunities to work with local businesses.

Formation of Functional Markets:

- < Promote partnerships between business and educational organizations to provide continuing education of managers and workplace training of young entrepreneurs.

Privatization

Enterprise Formation:

- < Focus on small-scale privatization, which is most easily accomplished.
- < Educate officials about the importance of privatization.
- < Facilitate deals.
- < Emphasize corporate governance.

Market Development:

- < Continue pushing for privatization.
- < Reduce direct involvement in valuation and deal-making, allowing local entities to take on this responsibility.
- < Incorporate privatization into the legal/regulatory reform agenda.

Formation of Functional Markets:

- < Make privatization part of the ongoing dialogue about creating a viable market economy.

Applying the Strategy

- < Undertake diagnostic analysis of stages for each program area, in collaboration with partners.
- < Use results to determine bottlenecks, identify local partner organizations, set priorities, and design activities.
- < Regularly monitor progress.
- < Adapt program strategies as local conditions change.

Establishing a Framework for Analysis

Completing the transition from state to privately owned factors of production.

Factors of Production

< Land

< Labor

< Capital

General Issues

- < Legislative
- < Regulatory
- < Economic
Conditions

Factors of Production

**Small and
Medium-Sized
Enterprises
(SMEs)**



Handout: Local Economic Development Terms and Definitions

Term	U.S. Definition	Country Definition
Political and Administrative Units		
1. Local government	Any unit of government below national.	_____
2. City	An incorporated geographic place with specific political boundaries and legal powers.	_____
3. County	An administrative subdivision of a U.S. state.	_____
4. Municipality	An administrative unit incorporated for local self-government.	_____
5. State	For purposes of this course, a national administrative governing unit.	_____
6. Region	A geographic area within which compatible political, economic, and cultural values are found.	_____
7. Political boundaries	Geographic boundaries established by legislative act.	_____
8. Economic boundaries	Geographic boundaries established by shared economic exchange, trade, or transactions.	_____
9. Legislative policy	Drafting and enactment of laws granting some unit or person authority to define the action of others.	_____
10. Regulatory policy	Control or limits of private action as allowed by laws.	_____
11. Public sector	Institutions or organizations enabled or established by government.	_____
Positions in Local Government		
1. Mayor	Elected chief political and administrative officer of a unit of local government.	_____
2. Council	Elected legislative representative.	_____
3. Commission	Body of elected legislative/administrative representatives.	_____
4. Executive officer	Appointed administrative official.	_____

Term	U.S. Definition	Country Definition
5. Director	Chief administrative officer of a department or functional division of a local government administration.	_____
6. President	Leader of the elected legislative body.	_____
Nonadministrative Subunits Within Local Governments		
1. Board	Typically an appointed body of citizens who generally assume regulatory responsibilities for the local government.	_____
2. Commission	An elected or appointed body that manages a subunit of local government administration or special district.	_____
3. Task force	An appointed group of citizens who assume an advisory role, providing the legislative body with information about a special issue or project.	_____
Administrative Units Within Local Governments		
1. Department	A unit within a municipal government charged with the responsibility of a vital municipal function (e.g., budget and finance, community services, public works) with its own director, staff, and resources.	_____ _____ _____
2. Division	A subunit of a department (e.g., budgeting, parks and recreation, sewage).	_____
3. Municipal utility	A municipal enterprise that functions under the authority of local government legislative and administrative bodies. Typically restricted to sewer, water, solid waste, and sometimes electric services.	_____ _____ _____

Term	U.S. Definition	Country Definition
Community Organizations		
1. Nongovernmental organization	Either a nonprofit or a private organization that can deliver services in lieu of the municipal government.	
2. Public enterprise	A corporation that is capitalized with tax dollars.	
3. Private enterprise	A corporation or business capitalized with private and/or individual funds.	
Local Revenue and Financial Terms		
1. Property tax	A tax based on the assessed value of the property, either real estate (land and buildings) or personal property.	
2. Fee (user fee, charge, tariff)	An amount of money—either fixed or variable—to be paid by citizens and businesses for municipal services and privileges.	
3. Permit/License	An authorization given, for a charge, by the government under its regulatory powers to an individual or business to undertake a particular task.	
4. Income tax	A tax levied on the gross income of an individual or for-profit business.	
5. Subsidy	A payment made to governments/persons when they are unable to meet their operating/living costs.	
6. Grant	A payment of money from one governmental unit to another or from a governmental unit to a nonprofit agency.	
7. Transfer	A transfer of money from one fund to another in a government unit. Transfers usually have to be approved by the governing body and are normally subject to restrictions in state and local law.	

Term	U.S. Definition	Country Definition
8. Bond	A promise to repay borrowed money on a particular date, usually 10 or 20 years in the future. Used by local governments to obtain long-term financing for capital projects.	
Budgetary Terms		
1. Capital budget	A spending plan for improvements on or acquisition of land, facilities, and infrastructure.	
2. Operating budget	The portion of a budget that deals with recurring expenditures for services and programs (e.g., salaries, electric bills, postage, printing).	
3. Annual budget	A spending plan that balances revenues and expenditures over a year and includes a work plan.	
4. Debt	The principal and interest that a local government has borrowed from private financial institutions, state governments, or international credit institutions.	
Economic Development Terms		
1. Financial incentive program	A municipal government's use of its authority to reduce or leverage public funds for private enterprises.	
2. Municipal assets	Land and buildings owned by a local government unit.	
3. Public-private partnership	Joint ownership by a political administrative unit and a private enterprise.	
4. Real net return	Value of an asset or financial incentive less the revenues generated through taxes, new employment wages, or increased fees.	

Term	U.S. Definition	Country Definition
5. Investment environment	The political, economic, and administrative conditions that influence decisions on the use of private sector money.	
6. Intervention policies	Action taken by a government to change or eliminate a condition that stops or impedes investment by private sector.	
7. Factors (inputs) of production	The mix of land, labor, and capital that produces a good or service.	



Handout: Adapting Program Strategies

Stages of Private Enterprise Development

Program Strategy	Enterprise Formation	Market Development	Formation of Functional Markets	Final Objective/Result
Legal and Regulatory Reform	Educate public officials about how an open market economy works and the legislative changes needed to achieve it.	Provide training and technical assistance for public officials regarding their roles and responsibilities.	Promote public-private partnerships for enterprise development.	Laws and regulations that establish an open, competitive marketplace.
	Inventory regulatory impediments to the development of private enterprise.	Provide training in policy analysis and strategic management to associations and think tanks.	Hold public forums for debating issues.	Transparent legislative processes.
	Survey firms.	Facilitate stakeholder dialogue.	Foster regional networks to carry forward momentum for reform.	Legal framework that promotes sound corporate governance practices.
Association Development	Encourage collective action among entrepreneurs and others to improve business opportunities.	Provide support for trade and professional association activities.	Support regional networks of associations and business coalitions.	Member-based trade and professional associations that serve the needs of the public and private sectors.
		Offer training in association management, advocacy, and coalition building.	Look for opportunities to link efforts with U.S. counterpart associations.	
Training and Technical Assistance for Enterprises	Use foreign experts to provide technical assistance to private businesses.	Reduce subsidies.	Target funding to promote best practices (through associations, information networks, etc.).	Enterprises buy services in the marketplace on a commercial basis.
	Identify and train local professionals in consulting techniques.	Encourage greater use of local experts. Focus on local skill building.	Increase regional trade.	Local partnerships (public-private) offset costs of services for small and micro sectors.

Stages of Private Enterprise Development				
Program Strategy	Business Formation	Market Emergence	Formation of Market Economy	Final Objective/Result
Financial Services	Deal directly with businesses to demonstrate viable financing (credit for micro- and small-scale enterprises) to both borrowers and future lenders/investors.	<p>Work with progressive banks with means to finance.</p> <p>Introduce alternative approaches (equity financing, leasing, credit unions, etc.).</p> <p>Continue with viable financing schemes (micro and other).</p>	<p>Provide training in best practices.</p> <p>Refine non-bank financing schemes.</p> <p>Develop secondary capital markets.</p>	Access by businesses of all sizes to a range of financial products that meet their need to establish and/or expand.
Education of a New Generation of Entrepreneurs and Managers	<p>Train educators in market economics.</p> <p>Provide educational programs for youth.</p>	Provide programs that give youth and pre-entrepreneurs hands-on opportunities to work with local businesses.	Promote partnerships between business and educational institutions to provide continuing education of managers and workplace training of young entrepreneurs.	A society that understands and values entrepreneurship and an open-market economic system.
Privatization	<p>Focus on small-scale privatization, which is most easily accomplished.</p> <p>Educate officials about the importance of privatization.</p> <p>Facilitate deals.</p> <p>Emphasize corporate governance.</p>	<p>Continue pushing for privatization.</p> <p>Reduce direct involvement in valuation and deal-making, allowing local entities to take on this responsibility.</p> <p>Incorporate privatization into the legal/regulatory reform agenda.</p>	Make privatization part of the ongoing dialogue about creating a viable market economy.	<p>A minor share of productive enterprises are state-owned.</p> <p>State-owned enterprises are not a drain on the state budget.</p> <p>The majority of economic wealth is generated from the private sector.</p>



Handout: **Overcoming Constraints**

Listed below are three general issues that should be considered when developing country-specific economic development strategies designed to stimulate the investment environment for SMEs and create an effective local economic development program. Participants should form regional or country groups. Working together, they should list general constraints that preclude:

- < The creation of effective local economic development programs
- < A strong SME investment environment
- < The completion of the transition from state-owned to privately-owned inputs of production.

Once all the constraints are listed, the group should identify the four most critical ones. Each group will be asked to present these four constraints.

Constraints

Sample Issues	Factors of Production		
	Land	Labor	Capital
Legislative Base Local government autonomy Fiscal reform Taxation Labor			
Regulatory Environment Free trade Competitive procurement Private property rights Pricing			
Economic Conditions Unemployment Consumer wealth Access to markets			



Handout: Economic Development Framework

One goal of this course is to develop an economic development strategy that you can use after returning to your community. As the course progresses, information will be presented that will assist in this process.

Using the attached worksheet, note how each session addresses the constraints that you have raised in your small group discussions. You may want to record ideas during the session, during breaks, after the session, or in the evening. The information recorded on the worksheets will be used later in the course to work on your overall strategies. As you complete the worksheets, consider the following questions:

- < Which issues can be addressed by your organization? How can your organization address these issues?
- < What level of government or institutions are best suited for addressing the constraints?
- < What would be a reasonable outcome of an economic development program? In what time frame can one expect results?
- < How will your suggested strategy affect conditions in your community? In your country?
- < What other organizations—government, private, or nongovernmental—should be considered as partners in addressing the constraints?

Application Worksheet

Condition or Barrier To Be Addressed	How Session Objectives Relate to Condition	Applicable Approaches or Practices To Consider	Potential Partners and Roles